

LONG-TERM HOG PROCUREMENT AGREEMENT

CONTRACT PRICE DETERMINATION FOR PLANT DELIVERED HOGS:

For ease of understanding examples are in both live prices and carcass prices. However for payment purposes only carcass prices are quoted and used.

Example A:

- 1) These examples are for hogs delivered the Week of April 26 through May 1, 1993. First determine the daily average of the prior week's 10:00 a.m. Hormel Foods' Grade and Yield Plant Delivered Market.

<u>DAY</u>	<u>DATE</u>	<u>LIVE MARKET</u>	<u>MEAT PRICE</u>
Monday	04/19/93	\$45.50	\$62.32
Tuesday	04/20/93	\$45.50	\$62.32
Wednesday	04/21/93	\$46.00	\$63.01
Thursday	04/22/93	\$45.00	\$61.64
Friday	04/23/93	\$45.00	\$61.64
<u>Weekly Average</u>		<u>\$45.40</u>	<u>\$62.19</u>

- 2) Determine 8 week moving average of Omaha corn and Decatur/Central Ill. 44% Soybean Meal. These averages are based on the 8 weeks prior to the previous week. Round corn to the closest \$0.10 per bushel and meal to the closest \$10.00 per ton.

<u>W/E</u>	<u>OMAHA CORN</u>	<u>DECATUR/ CENTRAL ILL 44% MEAL</u>
02/27/93	\$2.02	\$166.50
03/06/93	\$2.07	\$169.30
03/13/93	\$2.10	\$168.50
03/20/93	\$2.11	\$172.25
03/27/93	\$2.15	\$175.30
04/03/93	\$2.17	\$177.30
04/10/93	\$2.18	\$175.75
04/17/93	\$2.19	\$175.00
<u>AVERAGE</u>	<u>\$2.12</u>	<u>\$172.49</u>
<u>ROUNDED</u>	<u>\$2.10</u>	<u>\$170.00</u>

- 3) Determine Guaranteed Minimum Price.

From the Cost Allowance Matrix find the value for \$2.10 corn and \$170 meal.

	<u>LIVE MARKET</u>	<u>MEAT PRICE</u>
Matrix Value	\$36.50	\$50.00
Plus \$5.00 Live, \$6.85 Meat	\$5.00	\$6.85
<u>Guaranteed Minimum Price</u>	<u>\$41.50</u>	<u>\$56.85</u>

- 4) Determine Contract price.

Since last week's average price is greater than the guaranteed minimum price, the midpoint between last week's average price and the guaranteed minimum becomes the contract price.

	<u>LIVE MARKET</u>	<u>MEAT PRICE</u>
Last Week's Average Price	\$45.40	\$62.19
Guaranteed Minimum Price	\$41.50	\$56.85
<u>Contract Price</u>	<u>\$43.45</u>	<u>\$59.52</u>